STATE OF VERMONT
PUBLIC SERVICE BOARD

Joint Petition of Verizon New England Inc., d/b/a Verizon Vermont, Certain Affiliates Thereof, and FairPoint Communications, Inc. for approval of an asset transfer, acquisition of control by merger and associated transactions	))))))	Docket No. 7270

PROPOSED FINDINGS OF FACT OF VERIZON

These Proposed Findings of Fact ("Proposed Findings") are submitted by Verizon New England Inc. dba Verizon Vermont ("Verizon New England," or "Verizon VT"), NYNEX Long Distance Company ("NYNEX Long Distance"), Verizon Select Services Inc. ("VSSI"), and Bell Atlantic Communications, Inc. ("BACI") (collectively, "Verizon") in support of their request for Public Service Board ("Board") approval of the transfer of Verizon's local exchange and long distance business in Vermont to FairPoint Communications, Inc. ("FairPoint").

I. DESCRIPTION OF TRANSACTION

1. Verizon VT (together with certain affiliates) provides regulated telecommunications services in Vermont (including local exchange service and exchange access service) to approximately 360,000 access line equivalents in the state. Exh. DPS Cross-17 at 24, 173.
2. Verizon VT is an indirect, wholly-owned subsidiary of Verizon Communications Inc. Exh. DPS Cross-17 at F-75.
3. NYNEX Long Distance Company ("NYNEX Long Distance"), Verizon Select Services Inc. ("VSSI") and GTE.net LLC ("GTE.net") are indirect, wholly-owned subsidiaries, and Bell Atlantic Communications, Inc. ("BACI") is a direct, wholly-owned subsidiary, of Verizon. NYNEX Long Distance, BACI and VSSI provide interexchange services in Vermont. Exh. DPS Cross-17 at F-75.
4. Verizon VT's operation in Vermont predates the requirement of a Certificate of Public Good under 30 V.S.A. § 231(a). NYNEX Long Distance, BACI, and VSSI have been

granted CPGs under 30 V.S.A. § 231 to conduct businesses subject to the Board's jurisdiction and will retain those CPGs. Joint Petition at 5; Smith Pf. at 21.

5. FairPoint provides, through its local exchange carrier operating subsidiaries, (1) wireline local exchange and exchange access service to approximately 310,000 access line equivalents and (2) domestic and international long-distance toll services in 18 states, including Vermont, New Hampshire and Maine. Exh. DPS Cross-17 at 11, 173, F-22.

6. Verizon and FairPoint seek Board approval for the transfer of Verizon's local and long distance businesses in Vermont ("Vermont Business") to FairPoint, as part of the transfer of Verizon's local and local long distance businesses in Maine, New Hampshire and Vermont. Smith Pf. at 3.

7. The transferred business excludes businesses conducted by Verizon Business Global LLC (successor to the business of MCI, Inc.), Cellco Partnership (dba Verizon Wireless), Verizon Network Integration Corp. (network integration services), Verizon Federal Inc. (customized communications services), Verizon Federal Network Systems LLC (enterprise-wide communication solutions), and Verizon Global Networks Inc. (long distance Verizon network maintenance). Smith Pf. at 20-21. In addition, NYNEX Long Distance and BACI will continue to terminate long distance traffic in the three states and VSSI will continue to offer prepaid card, payphone dial-around services and dedicated internet access. Smith Pf. at 21.

8. In general terms, the transaction will be effected by means of (1) the creation of a separate entity, Northern New England Spinco Inc. ("Spinco"), as the holding company for Verizon's local exchange, long distance and related business activities in Maine, New Hampshire and Vermont, (2) the spin-off of the stock of Spinco to Verizon Communications shareholders, and (3) the merger of Spinco into FairPoint immediately thereafter. The spin-off and the merger are designed to be tax-free to Verizon and its shareowners under the Internal Revenue Code. Smith Pf. at 3.

9. More particularly, pursuant to the Agreement and Plan of Merger among Verizon Communications, Spinco and FairPoint ("Merger Agreement") and the Distribution Agreement between Verizon Communications and Spinco, both dated January 15, 2007, the transaction will be accomplished through the following steps:

a. Verizon New England transfers its assets, liabilities and customer relationships relating to its local exchange, intrastate toll and exchange access operations in Vermont, New Hampshire and Maine to Northern New England Telephone Operations Inc. ("Telco"), a wholly-owned subsidiary of Verizon New England;

b. NYNEX Long Distance, BACI, and VSSI transfer their accounts receivable, liabilities and customer relationships relating to their long-distance and certain non-regulated operations in Maine, New Hampshire and Vermont to Enhanced Communications of Northern New England Inc. ("Newco"), a wholly-owned subsidiary of Spinco, through a series of intermediate transfers;[1]

c. Verizon New England transfers the stock in Telco to Spinco, through a series of intermediate transfers;

d. Verizon Communications distributes the stock of Spinco directly to Verizon's shareholders;

e. Spinco is merged into and with FairPoint, with FairPoint as the surviving company.

Smith Pf. at 4, 7, 10; Exhs. Verizon VT SES-1, SES-2.

10. As of the closing, FairPoint will be owned by the shareholders of Verizon Communications and FairPoint in an approximately 60%/40% ratio, and FairPoint will directly own Telco and Newco. Smith Pf. at 4, 19.

11. FairPoint is obligated to pay Verizon $1.7 billion for the transferred business, consisting of a special dividend to Verizon equal to the tax basis of Verizon's investment in Spinco (expected to be roughly $900 million) and the remainder in the form of senior, unsecured ten-year notes. Smith Pf. at 14-15.

12. Under an Employee Matters Agreement, employees that Verizon determines not to retain and whose primary duties relate to the transferred business will continue their employment with Telco and Newco after the closing. Exh. Verizon VT SES-3, Section 4.1.

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1 Certain other Verizon affiliates, which are not subject to Board regulation, will also transfer certain assets, liabilities and customer relationships to Newco. Smith Pf. at 7. Depending on the tax consequences, Verizon may elect to create Spinco as a direct subsidiary of Verizon New England, rather than Verizon Communications. Smith Pf. at 13. As of the date of hearing, Verizon had not yet received the Internal Revenue Service ruling that is necessary to determine which structure to employ. Tr. 9-7-07 (Smith) at 49-50, 81-82.

13. FairPoint will be responsible for all post-retirement obligations associated with persons employed by Telco and Newco as of the closing, and Verizon will transfer assets from its pension plans in an amount that fully funds FairPoint's pension plans at closing. Smith Pf. at 18; Exh. Verizon VT SES-3, Section 5.2.

14. FairPoint will not be responsible for post-retirement obligations with respect to current Verizon retirees and any Verizon employees who retire prior to closing. Smith Pf. at 12; Exh. Verizon VT SES-3, Section 5.2.

15. The Employee Matters Agreement, in general terms, also precludes FairPoint, during the first year after closing, from hiring a Verizon employee who voluntarily leaves, until six months after departure. Tr. 9-7-07 (Smith) at 29; Exh. Verizon VT SES-3, Section 4.3(a). This provision is necessary to assure orderly continuity of business operations and to avoid an adverse economic impact on Verizon if a large number of employees retired (subjecting Verizon to the post-retirement health and benefit obligations) and then became employed by FairPoint immediately after closing. Tr. 9-7-07 (Smith) at 31.

16. Following notification and the ability to opt-out, current customers of Verizon VT will become customers of Telco, and current customers of NYNEX Long Distance, BACI and VSSI will become customers of Newco. Exh. Verizon VT SES-1, Section 7.6(f); Smith Pf. at 4, 8.

17. With respect to Verizon VT's wholesale obligations, Verizon VT will assign to FairPoint contracts addressing areas completely within Maine, New Hampshire and Vermont. Contracts addressing areas totally outside of the three states will be unaffected. Verizon will offer to amend the contracts addressing areas both within and outside of the three states, to exclude service within the three states and FairPoint will offer to negotiate replacement contracts on substantially the same terms. Verizon and FairPoint will renegotiate and amend volume commitments to reflect the change in scope of service post-closing. Smith Pf. at 21-22.

18. Upon closing, NYNEX Long Distance and BACI will cease doing any business subject to the Board's jurisdiction, but VSSI will continue to conduct such business (i.e., prepaid card, payphone dial-around services and dedicated internet access). Smith Pf. at 21.

II. TRANSITION AND CUTOVER

19. Under a Transition Services Agreement ("TSA"), Verizon is obligated to provide four types of services. The first group (Schedule A Services) includes (among other things) accounting, human resources, interconnection support, engineering, network provisioning and support, retail and wholesale support, repair support, information systems support, billing and financial operations ("Centralized Services"). Smith Pf. at 24-25.

20. The TSA excludes certain other centralized services, including financial/tax planning, regulatory/legal services and treasury-related activities. Smith Pf. at 25-26.

21. Verizon is also required to isolate and install firewalls, to protect its information technology systems and data related to its retained business from interaction with the systems and data supporting the other TSA services ("Schedule B Services"). Smith Pf. at 25.

22. Schedule C Services involve human resources benefit delivery and administration, provided only to Telco. Smith Pf. at 25.

23. Finally, Verizon will provide support for internet service provider ("ISP") services, including (among other things) customer account support, IP address management, value-added service offering, retail and wholesale CPE support, and customer billing and service support ("Schedule D Services"). Smith Pf. at 25.

24. The TSA also governs the parties' joint efforts to plan, prepare for and implement the cutover from Verizon's OSS to FairPoint's new systems, once ready. Smith Reb. Pf. at 12; Exh. Verizon VT SES-4, Section 7.2.

25. Under Section 7 of the TSA, Verizon is obligated to provide the same quality, timeliness and efficiency of transition services to FairPoint as it provides to Verizon's affiliates, taking into account reasonable monthly fluctuations. Smith Pf. at 31.

26. Verizon's performance under the TSA must also meet the standards associated with the Performance Assurance Plan and Carrier to Carrier Guidelines. Smith Pf. at 32.

27. Transition services will be provided under the TSA until FairPoint has been able to develop its own systems and service cutover occurs. It therefore allows FairPoint and Capgemini as much time as they need to fully develop and test FairPoint's new OSS. Smith Pf. at 23; Exh. Verizon VT SES-4 at Section 13.1.

28. Under the TSA, FairPoint will pay a fixed one-time fee for firewall installation, a fixed monthly fee for the Telco human resource services, a monthly fee for Centralized

Services that varies over time, and a combination of fixed monthly and service-based fees for ISP services. Smith Pf. at 29-30; Exh. Verizon VT SES-4, Section 2.1.

29. The level of fees was the result of arms-length bargaining between Verizon and FairPoint. The annual base rate for Centralized Services (TSA Schedule A) of $170.4 million is less than the Verizon projected 2006 corporate allocation to Vermont, New Hampshire and Maine for centralized services, even after accounting for the fact that the three-state allocation covers more services. Smith Reb. Pf. at 18.

30. Although the TSA fee schedule increases in months 13-16, the increase merely offsets prior fee decreases in months 9-12. Smith Reb. Pf. at 18. The pricing does not create pressure on FairPoint to cutover prematurely because the price does not increase (after considering the combined effect of the decrease and subsequent increase) until the 16th month and it is very unlikely that FairPoint will be obtaining transition services 16 months after closing. Smith Reb. Pf. at 18-19.

31. As a part of the TSA, Verizon and FairPoint have established a comprehensive framework for FairPoint's transition ("Cutover") from reliance on Verizon's systems to its own systems. Smith Pf. at 27. The framework includes a comprehensive planning process, weekly meetings involving Verizon and FairPoint, input by personnel from all affected service areas, the creation of detailed planning documents and a detailed schedule for all tasks necessary to complete Cutover. Smith Pf. at 27-28.

32. Verizon and FairPoint began joint Cutover planning soon after the transaction was announced. Smith Pf. at 28. A Cutover Planning Committee was established that includes senior leaders of Verizon, FairPoint and Capgemini US LLC ("Capgemini") and that meets on a weekly basis. Smith Reb. Pf. 2. Verizon members of the team include Stephen Smith, two members of his staff, and over 30 specialists from the Telecom, Enterprise, Wireless and Corporate Support groups. Smith Pf. at 27.

33. The committee has developed a number of tools to ensure close coordination, including the following:

a. An issues management process in which open items are reviewed weekly by the Cutover Planning Committee;

b. A change management process, involving a change request log to record and track requested changes to the plan;

c. A detailed final delivery matrix describing the logistics of data transfer;

d. WEBEX, a secure, web-based tool for sharing information; and

e. Data mapping sessions to facilitate a complete understanding the specifications of the transferred data.

Smith Reb. Pf. at 5-6.

6. The details of the Cutover process are described in a Cutover Plan prepared by Verizon and in the Cutover Preparation Tasks prepared by FairPoint. Smith Reb. Pf. at 2; Exh. Verizon VT SES-5(2) (Confidential); Exh. FairPoint Cross 17 . The Cutover Plan describes 130 separate activities and nearly 1,600 Cutover steps that Verizon will undertake between closing and Cutover. Smith Reb. Pf. at 3-4.

7. Verizon will engage roughly 400 of its subject-matter experts representing 30 major organizational groups in the Cutover process. Smith Reb. Pf. at 16.

8. The parties are engaged in daily teleconferences among the cutover team and subject matter experts. Smith Reb. Pf. at 5.

9. Verizon and FairPoint "are very committed to [the Cutover] process, have dedicated the proper resources, have the right regimen place, have the right experts working the process, and know well what needs to get done and are highly confident [they] are on track to do it." Tr. 9-7-07 (Smith) at 42-43.

10. Verizon's Cutover obligations include extraction of final data from its systems, delivery of that data to FairPoint, rigorous testing, and the availability of additional personnel to assist with Cutover activities to the extent necessary. Smith Pf. at 29; Smith Reb. Pf. at 3. In general terms, the cutover process consists of five stages:

Stage 1: development of the Cutover Plan and the Cutover Preparation Tasks, establishment of teams and coordination protocols, and initial preparation activities;

Stage 2: delivery and testing of the first of three full data extracts;

Stage 3: second data extract (expected to occur near the transaction closing);

Stage 4: FairPoint notice of readiness, triggering final Cutover preparations; and

Stage 5: actual Cutover, which is expected to last for up to five days and is expected to begin on Saturday, May 31, 2008 (or as noted below, the night before).

Smith Reb. Pf. at 6-9.

11. Stage 1, which already occurred, involved a series of meetings, beginning in February, 2007, among Verizon, FairPoint and Capgemini to review the cutover process, the proposed timeline, Verizon's data extracts and the development of the Cutover Plan and the Cutover Preparation Tasks. Subsequent meetings involved (1) Verizon's presentation of summary descriptions of the IT systems and golden source systems from which data will be extracted, and (2) workshops in which Verizon described extract system data, and static and dynamic data samples, such as system relationships, data tables, extract file types and copybooks (record specifications). Smith Reb. Pf. at 6.
12. Stage 1 also involved FairPoint's IT system selection, some initial data mapping, selection of future vendors, staffing, and investigation of new work-center locations. Smith Reb. Pf. at 6.
13. In stage 2, Verizon delivered the first of three full data extracts from its golden source systems. The first and second data extracts will test how well Verizon can extract the appropriate data from its systems and deliver it to FairPoint, and test FairPoint's readiness and ability to receive and use the data. Verizon IT teams will extract, test and confirm that data has been successfully extracted and that each set of extracted data is complete. Upon receipt of the extract, FairPoint and Capgemini will process the data through a series of conversion programs, load it into the new Fairpoint systems, determine whether the conversion programs functioned as intended and determine whether the data was successfully input and accepted by the system. Smith Reb. Pf. at 7.
14. After the extract, Verizon will discuss the extraction and delivery process with FairPoint and Capgemini and any issues that need to be addressed. The parties will meet again approximately 30 days thereafter to discuss any difficulties in converting the data and uploading it into the new FairPoint systems. Smith Reb. Pf. at 7.
15. As of mid-September, provision of the first data extract was close to complete. Tr. 9-18-07 (Haga) at 164-65.
16. At the time of hearing, Capgemini had identified a few format issues from the first data extract, and Verizon had addressed those issues and provided new extract versions covering those areas. Tr. 9-18-07 (Kurtze) at 192.

17. In Stage 3, Verizon will provide FairPoint with updated copybooks and a second set of data extracts. The parties will again exchange feedback on the results of the second test data extracts through a series of meetings. Because the parties expect to close the transaction during this stage, activities include closing-related activities, such as providing all required carrier and customer notifications. Smith Reb. Pf. at 8.
18. Stage 4 begins when FairPoint delivers to Verizon a Notice of Readiness for Cutover. Verizon will then make final preparations for the final delivery of data, including implementing any necessary process improvements. Before FairPoint gives the Notice of Readiness, the parties will coordinate closely to confirm that FairPoint will be ready to consummate the cutover on the Cutover Date selected. Smith Reb. Pf. at 8.
19. Under the TSA, FairPoint has sole authority to determine when it is ready to cutover and to provide notice of readiness of cutover to Verizon. Tr. 9-7-07 (Smith) at 42. Cutover will take place and Verizon will cease providing transition services 60-90 days after FairPoint provides such notice. Smith Pf. at 30.
20. In the unlikely event that FairPoint provides such a notice but Mr. Smith felt that FairPoint was not ready for cutover, he would discuss the matter with FairPoint's president, Mr. Nixon, and was confident that Fairpoint would concur. Tr. 9-7-07 (Smith) at 75-76.
21. It is more important to Fairpoint to have a problem-free cutover than it is to meet the expected cutover data of late May, 2008, and if FairPoint felt the need for a 3rd data extract test prior to cutover, it would work with Verizon to add that to the schedule, even if doing so might delay cutover. Tr. 9-18-07 (Haga) at 198-199.
22. Stage 5 consists of the Cutover itself. Verizon will prepare and deliver the final data extracts in a manner consistent with the first and second extracts but incorporating any changes and improvements made as a result of those prior extracts. The final stage will be tightly managed by means of the Delivery Matrix, which will be used to track, for each deliverable, the data and operational delivery activities, including delivery date and hour, method of delivery, and geographic location if the method of delivery is a pick-up. Smith Reb. Pf. at 8-9.
23. At Cutover, Verizon will stop processing business activities and will begin preparation and delivery of the final extracts and providing record counts and other system metrics to confirm that the data being provided to Fairpoint is complete. Upon receipt, FairPoint will

run the data through conversion programs and upload it into its new systems. During and for two weeks after Cutover, Verizon will provide a 24x7 service desk to assist FairPoint and monitor on an hourly basis the progress of all Verizon IT tasks scheduled in the Delivery Matrix. Smith Reb. Pf. at 9

24. The extraction, delivery and uploading of Verizon's business data will last between three to five days. FairPoint will also begin data mapping and final system upload at this time. Smith Reb. Pf. at 9. Thus, it is expected that the extraction and delivery to FairPoint of Verizon's data will take 2 to 2 1/2 days and a similar period for FairPoint to load the information on its systems. Tr. 9-07-07 (Smith) at 16.
25. Verizon plans to start Cutover after close of business on a Friday, to reduce the number of business days that FairPoint may be without live system support of customer information. Smith Reb. Pf. at 9.
26. Fairpoint will continue to be able to process orders during the transition, albeit through manual processes. Tr. 9-18-07 (Haga) at 155.
27. Certain information such as pole and conduit license agreements will be provided to FairPoint in paper form. Tr. 9-7-07 (Smith) at 15.
28. Some activities will not happen at Cutover. These are primarily network-related activities requiring a physical re-pointing of network elements "from" Verizon "to" Fairpoint, such as responsibility for network monitoring on a manual switch-by-switch basis. These activities will be scheduled to occur in the early morning hours over a series of days, and Verizon will monitor those elements of FairPoint's network that are connected to Verizon's surveillance centers until all network switches have been homed to FairPoint's surveillance centers. These migration activities will be transparent to Fairpoint's customers (both retail and wholesale) and will not affect service. Smith Reb. Pf. at 9-10.
29. Cutover must be completed at one time, rather than phased-in on a system-by-system basis, because Verizon's administrative and operating support systems and services are highly integrated. For instance, customer orders move from entry to provisioning to billing to accounting to financial reporting. These systems cannot be separated without great cost and risk. Smith Reb. Pf. at 13-14.

30. A system-by-system Cutover would create significant operational risks, due to de-integration of related files. It would be extremely complex and prohibitively expensive, and would create the risk of disruption of related activities. Smith Reb. Pf. at 14.
31. This type of phase-in would require the creation of linkages from individual Verizon systems into FairPoint systems and a testing of those linkages. Tr. 9-7-07 (Smith) at 55, 87.
32. A phased-in Cutover would be sufficiently costly to call into question whether the parties would go forward. Tr. 9-7-07 (Smith) at 57-58.
33. A system-by-system phase-in could result, for instance, in sending response personnel on an E-911 call to a wrong address. Tr. 9-19-07 (Mills) at 175. It would be tantamount to transporting a person by removing her organs and transporting them separately. Tr. 9-19-07 (Mills) at 174.
34. A state-by-state phase-in would also involve an enormous amount of additional work, in order to isolate data relevant to each state. Smith Reb. Pf. at 14. It would not reduce the risks associated with a one-time cutover, but instead would increase the level of complexity. Smith Reb. Pf. at 14. The Department of Public Service ("Department") witness could not provide an estimate of the added costs associated with a state-by-state phase-in. Tr. 9-19-07 (Mills) at 177.
35. When completed, the Cutover must also be final. It would be impractical for Verizon to maintain shadow systems after Cutover, because it would be enormously costly and complicated to assure that FairPoint's and Verizon's systems were fully integrated and because any attempt to serve the same customers would create the risk of missing, duplicate or improperly-recorded information. Smith Reb. Pf. at 15. It would also create the risk that FairPoint and Verizon would duplicate the same activities, such as taking service orders and scheduling installation dates, on an inconsistent basis. Tr. 9-7-07 (Smith) at 80-81.
36. Once the data is purged, Verizon will retain a back-up copy of the data only for purposes of providing it to FairPoint in the event the original data transfer is unsuccessful. The data copy will not be restored to Verizon VT's systems. Tr. 9-7-07 (Smith) at 53, 54.
37. Mr. Smith personally directed Verizon's cutover team in connection with the transfer of Verizon's Hawaii landline business. Smith Reb. Pf. at 10.

38. The cutover process here bears no resemblance to the cutover process in Hawaii in terms of the nature of the buyer, the time allotted to do the transition or the expertise of the systems developer. Smith Reb. Pf. at 10.

39. Unlike FairPoint, the purchaser in Hawaii was a private equity firm with no telecommunications experience. It assembled its management team during the period of regulatory review, closing and cutover. Smith Reb. Pf. at 11.

40. The management of FairPoint, on the other hand, has substantial experience in acquiring and operating rural landline telephone providers. Nixon Pf. at 8; Nixon Reb. Pf. 10-11. It has an excellent understanding of the requirements necessary to assure a successful cutover. Smith Reb. Pf. at 11.

41. The Hawaii purchaser did not retain a consultant until five months after the transaction documents were signed. The consultant assigned only small consulting teams during this period and turnover was high. Smith Reb. Pf. at 11.

42. Capgemini was retained by FairPoint before the transaction agreements were executed. Smith Reb. Pf. at 11.

43. By late Spring, 2007, Capgemini and FairPoint had developed a model describing the planned organization and business needs, negotiated needed information technology systems and established Cutover milestones. The Hawaii transaction did not achieve this level of preparation until after the transaction closed and transition services were being provided. Smith Reb. Pf. at 11-12.

44. The troubles experienced by Hawaiian Telcom did not arise from the cutover itself – i.e. the delivery of systems data from Verizon to Hawaiian Telcom – but rather from the fact that Hawaiian's new OSS were not fully functional at the time of cutover. *See* Ball Pf. at 11, citing Hawaiian Telcom's 10-K Statement to the SEC; Pelcovits Pf. at 19-20 (same); Tr. 9-7-07 (Smith) at 73

45. There is extensive communication and coordination in this transaction as compared to Hawaii. Examples include the creation of the FairPoint Cutover Preparation Tasks and the requirement of significant test data extract feedback. Smith Reb. Pf. at 11-13; Tr. 9-7-07 (Smith) at 51-52. The development of FairPoint's Cutover Tasks provides Verizon with a far better understanding of the systems that will be used to receive and use Verizon's data after Cutover, thereby addressing incompatibility. Smith Reb. Pf. at 12.

46. FairPoint has proposed that a single, third-party consultant, acting on behalf of the commissions in all three northern New England states, would participate in developing objective testing criteria for FairPoint's new OSS, such that the consultant and Fairpoint would agree, prior to testing the new systems, on what tests should be performed to ensure full functionality and the test results the systems would need to generate in order to allow the cutover to proceed. Tr. 9-19-07 (Haga/Kurtze) at 39-42.

47. Because Verizon shareholders will own roughly 60% of FairPoint's stock after closing, Verizon is highly motivated to assure a successful transition and Cutover process. Smith Reb. Pf. at 16; Mills Pf. at 12.

48. The investment community believes that Verizon will provide the necessary assistance and cooperation to FairPoint, since it is important to Verizon that the sale and conversion be completed. Wheaton Pf. at 26.

49. It is unnecessary as a condition of the sale for the Board itself to verify, at the time of Cutover, that FairPoint is ready. It can obtain the requisite assurance of a successful Cutover based on the caliber of the buyer, the level of cooperation between buyer and seller, and the quality of the cutover plan. Tr. 9-7-07 (Smith) at 43.

III. SERVICE QUALITY AND NETWORK INFRASTRUCTURE

50. Verizon VT provides high quality service to consumers and owns good quality assets. As a result, there is no need to allocate significant capital spending to improvements in service quality.

51. Verizon VT adopted a service quality plan in 2000, as a component of its Incentive Regulation Plan. *Investigation into an Alternative Regulation Plan,* Docket Nos. 6167/6189 (Vt. Pub. Serv. Bd. March 24, 2000).

52. The service quality plan was thoroughly reviewed in a lengthy proceeding resulting in the adoption of Verizon VT's Amended Incentive Regulation Plan and an amended service quality plan ("SQP") little more than two years ago. *Investigation into a Successor Incentive Regulation Plan etc.,* Docket No. 6959 (Vt. Pub. Serv. Bd. Sept. 26, 2005) ("Initial Plan Order") at 23-25: *Investigation into Tariff Filing of Verizon New England Inc., etc.,* Docket Nos. 6959/7142 (Vt. Pub. Serv. Bd. April 27, 2006) ("Amended Plan Order") at App. A at Section I(A).

53. Based on the comprehensive service quality review undertaken in that case, the Board decided not to impose any service quality-related conditions other than those contained in the SQP itself. Initial Plan Order at 142. Instead, the Department supported, and the Board approved, few changes from the original service quality plan. Initial Plan Order at 128; 142.
54. The Department has not proposed any substantive change to the service quality requirements contained in the SQP, other than adding exchange-specific reporting for the metrics for trouble report rate and troubles not cleared within 24 hours. Exh. DPS CJC-5.
55. An exchange-specific metric would be very volatile and could trigger penalties, for instance, if a single car accident damaged several utility poles in a smaller exchange. Tr. 9-17-07 (Porell) at 162.
56. The SQP measures Verizon VT service quality in 11 performance areas using 19 separate baseline standards. The standards measure the quality of customer interactions, such as speed that calls are answered and installation appointments met, and measure the quality of Verizon VT's network facilities, such as network trouble report rate, and network component failures. Porell Reb. Pf. at 3; Pariseau Surreb. Pf. at 3-4.
57. FairPoint proposes to assume all of the rights and obligations of Verizon VT under the SQP. FairPoint will also adopt the broadband deployment commitments of Verizon contained in the Amended Incentive Regulation Plan. Nixon Pf. at 24-25.
58. Since the inception of Verizon VT's SQP, it has met or exceeded 111 of 125 (89%) of the annual baseline standards. Porell Reb. Pf. at 4.
59. Verizon VT's service quality has improved between 2001-2006 with respect to six of the 19 SQP benchmarks, declined as to five, and there has been no change or the metric has been changed or eliminated (and thus no comparison is possible) with respect to the remaining eight benchmarks. Pariseau Surreb. Pf. at 3-4.
60. In the last two years, VZ VT has missed only one benchmark, "Percent Troubles Not Cleared in 24 Hours – Residence." Porell Reb. Pf. at 5.
61. Verizon VT retains an independent third party to undertake Customer Care Index ("CCI") satisfaction surveys. The survey measures six categories: consumer provisioning, consumer repair, consumer inquiry, business provisioning, business repair, and business inquiry. Of the six categories, Verizon VT's performance was judged to be satisfactory or better by more

than 90% of the survey respondents in 2006 for all categories except consumer repair. Porell Reb. Pf. at 5-6.

62. Similarly, the percent of survey respondents rating Verizon VT's performance as satisfactory or better has increased in five of six CCI survey categories. Porell Reb. Pf. at 6.
63. The Department records customer complaints, which it divides into grievances and escalations. Escalations are a more accurate measure of service quality than grievances, which include complaints that the Department did not investigate, or that resulted in a Department determination that Verizon VT's actions were consistent with all applicable requirements or that the Department lacked jurisdiction. Porell Reb. Pf. at 10-11; Pariseau Surreb. at 9.
64. The annual rate of escalations in 2006 was less than one in 1,000 lines; that is, there are no valid complaints against more than 99.9% of Verizon VT's lines. Porell Reb. Pf. at 12.
65. From 2001 to 2006, the number of escalations declined by 28% on an absolute basis and by 16% on a per-line basis. Porell Reb. Pf. at 11.
66. The ARMIS rate of complaints per million lines cited by Dr. Peres distorts Verizon VT's performance, because the absolute number of complaints (238 in 2006) remains extremely low even with the annual increases he shows. Porell Reb. Pf. at 13. In addition, Dr. Peres selected 2001 as his base year from which to demonstrate declining performance by 2006, but that year happened to be an exemplary one for Verizon VT, and a comparison of 2006 performance figures to those for the year 2000 instead would show essentially no change. Tr. 9-17-07 (Porell) at 112.
67. Although a significant portion of complaints received by the Department relate to Digital Subscriber Line ("DSL") service, this is attributable to the exponential growth in DSL due to Verizon VT's commitments under the Amended Incentive Regulation Plan. The number of DSL grievances is only .4% of the number of qualified DSL lines. Tr. 9-17-07 (Porell) at 139-40.
68. In connection with its due diligence, FairPoint representatives reviewed facilities in 13 towns, including three central offices. Tr. 9-17-07 (Brown) at 199 ; Tr. 9-17-07 (Harrington) at 201. Those central offices were specifically selected because they contain a cross-section of virtually all types of equipment Verizon has deployed in Vermont. Tr. 9-17-07 (Harrington) at 201.

69. After its review of Verizon VT's facilities, FairPoint concluded that they were in sufficiently adequate condition to assure that good quality service continued. Tr. 9-6-07 (Leach) at 106.
70. FairPoint found no evidence of a significant backlog in maintenance, except that outside plant maintenance is "a little bit behind." Tr. 9-18-07 (Harrington, Brown, Smee) at 37-38. It found no evidence, for instance, that vehicle maintenance had been "let go" over the last several years. Tr. 9-18-07 (Smee) at 36.
71. "[T]he network trouble report rate is the leading indicator of the quality of [Verizon VT's] infrastructure," and Verizon VT's network trouble report rate per hundred lines is less than 1.4, providing strong evidence that the network is in good condition and is delivering high quality service. Tr. 9-17-07 (Smee) at 216.
72. Of the five so-called "hot spots" (service issues affecting multiple customers in an exchange) initially identified by the Department, three have been fully addressed by Verizon VT and it is taking measures to address the remaining two. Porell Reb. Pf. at 7-9; Pariseau Surreb. at 6. All five "hot spots" involve less than 1% of Verizon VT's remote terminals and involve service to 367 customers, or one-tenth of 1% of Verizon VT's access lines in service. Porell Reb. Pf. at 8.
73. Although there was much testimony concerning the existence of dual poles and other poles-related concerns, the Department's chief engineer had no opinion on whether the issue is any worse for Verizon VT's poles than for the electric utilities. Tr. 9-20-07 (Mertens) at 79.
74. The informal process initiated by the Department to address dual pole issues has been working well and should continue. Porell Reb. Pf. at 17. During this process, Verizon VT and other participants have "conducted themselves in a highly professional manner … the group agreed on problematic areas and root causes … [and] broad corrective action plans were agreed to by the participants." Mertens Pf. at 2.
75. The Department's process is the appropriate mechanism to address the dual poles issue. Tr. 9-20-07 (Mertens) at 85-86.
76. The Verizon VT-Vermont Electric Cooperative Inc. ("VEC") Joint Ownership Agreement provides that responsibility for removing old poles shifts from one party to the other 90 days after provision of notice. Hallquist Pf. at 1-2; Porell Reb. Pf. at 18. The notice period begins when Verizon VT receives notice that all other attachers have relocated their facilities.

Porell Reb. Pf. at 19. That work may not be completed for an extended period of time. Tr. 9-17-07 (Porell) at 173.

77. The system of providing notice of facilities relocation by mail is "antiquated." Tr. 9-20-07 (Hallquist) at 69. Verizon VT has recently implemented an electronic notice system, but not all electric utilities have done so. Tr. 9-17-07 (Porell) at 174.
78. Although VEC provided an estimate of the number of dual poles in its territory, neither VEC nor any other entity has undertaken an inventory to accurately assess the number of dual poles or who is responsible. Tr. 9-20-07 (Hallquist) at 66.
79. The poles that require real work, including but not limited to removal of dual poles, represent approximately 1% of all poles, and FairPoint has budgeted an appropriate amount to address those issues. Tr. 9-18.07 (Smee) at 33-34.
80. There is a trade-off between devoting additional resources to dual pole removal and to other goals, such as line extensions, storm restoration, or tree trimming. Tr. 9-20-07 (Mertens) at 82.
81. No party has claimed that Verizon VT is violating any aspect of its SQP or any other applicable requirement with respect to dual poles. The Verizon VT- VEC Joint Ownership Agreement, for instance, merely provides that responsibility for removing old poles may shift from one party to the other 90 days after provision of notice. Hallquist Pf. at 1-2; Porell Reb. Pf. at 18. It does not specify a timeframe for removal.
82. FairPoint and VEC have entered into a Memorandum of Understanding, which provides (among other things) that "FairPoint shall eliminate such backlog [of dual poles] within a maximum of 36 months following a six month transition period after" closing. Exh. VEC-1 at 4.
83. FairPoint was generally aware of the dual pole issue when it negotiated to purchase the transferred business. Tr. 9-20-07 (Nixon) at 224-25. It reviewed substantial data regarding poles in Vermont and is comfortable that its budget is sufficient to address those issues. Tr. 9-18.07 (Smee) at 33-34. It accepted liability for removal of the poles and factored this responsibility into the purchase price. Tr. 9-20-07 (Nixon) at 225-26.
84. It would not be appropriate to require Verizon VT to fund the elimination of dual poles to the extent "the purchase price was discounted by FairPoint based upon a legacy problem." 9-20-07 (Mertens) at 83-84.

85. VEC's witness claimed that an unspecified number of Verizon VT invoices were overdue, reflecting an unidentified amount. Hallquist Pf. at 3-4; Hallquist Reb. Pf. at 4-5. At the hearing, Mr. Hallquist stated that the amount at issue was roughly $30,000, but did not identify the reasons for the withheld payments. Tr. 9-20-07 (Hallquist) at 50. Mr. Hallquist requested that Verizon VT be required to "work with VEC" to settle the outstanding invoices, Hallquist Pf. at 3-4, but he conceded that the requirement should not be a condition of closing. Tr. 9-20-07 (Hallquist) at 53.

86. VEC also requested that, if the sale does not take place, Verizon VT be required to undertake a pole inspection and treatment program jointly with VEC. Hallquist Reb. Pf. at 3. There is no need for such a program, as demonstrated by the fact that VEC chose not to undertake such a program on its own at any time in the past. Tr. 9-20-07 (Hallquist) at 55. VEC chose not to include a joint inspection and treatment requirement in the Joint Ownership Agreement. Tr. 9-20-07 (Hallquist) at 55.

87. VEC requests a Board requirement, if the sale does not take place, that Verizon VT participate in a joint survey of poles located in the former Citizens Utilities territory. Hallquist Pf. at 7-8. VEC could have required such a survey when it obtained the Citizens Utilities service territory, but chose not to. Tr. 9-20-07 (Hallquist) at 57. He also conceded that the Joint Ownership Agreement does not obligate Verizon VT to participate in such a joint survey. Tr. 9-20-07 (Hallquist) at 58. His claim that there was an informal agreement to do so, Tr. 9-20-07 (Hallquist) at 58, is not supported by any documentation, contemporaneous or otherwise.

IV. FAIRPOINT WILL BE A FAIR BUSINESS PARTNER

88. FairPoint combines a strong knowledge of consumers' needs with substantial experience in meeting them, enabling it to operate efficiently and to provide high-quality services, including innovative broadband services, to rural and small urban areas. Nixon Pf. at 7-8; Leach Pf. at 7; Tr. 9-7-07 (Smith) at 68.

89. FairPoint will focus on northern New England as a core market after the closing. Smith Pf. at 3.

90. The investment community believes that FairPoint has financial acumen, discipline, experience and savvy to acquire the transferred business. Wheaton Pf. at 25.

91. As indicated above, FairPoint will inherit Verizon VT's good quality service and has committed to make improvements in several areas.
92. Existing customers of Verizon VT will receive at least thirty days' advance notice of the transfer of the Vermont Business to FairPoint, and therefore will have the ability to make alternative arrangements prior to closing, in which case FairPoint will be responsible for any carrier change charges. In the event a customer chooses not to make alternative arrangements, he or she will be served by FairPoint after the closing. Exh. Verizon VT SES-1, Section 7.6(f).
93. Existing wholesale arrangements, including contracts and tariffs, will not be harmed as a result of this transaction. Nixon Pf. at 27-28.
94. The transaction agreements ensure fair and equitable treatment of employees. FairPoint will offer employment to all employees associated with the transferred business and will be responsible for their post-retirement obligations. FairPoint will also honor the labor union agreements. Smith Pf. at 3.
95. FairPoint will also create 145 new positions in Vermont, as part of over 700 new positions to be added in northern New England. Nixon Pf. at 16; Leach Pf. at 8-9. Nixon Reb. Pf. at 4; Tr. 9-19-07 (Nixon) at 229.
96. FairPoint will increase local operational presence and institute three new local service centers within Northern New England (a Network Operations Center, an Information Systems Center and an Administrative Center). Nixon Pf. at 15.
97. FairPoint plans to invest over approximately $18.6 million in Vermont within the first 18 to 34 months of operation to expand broadband capability. FairPoint Exh. HBS-1 (Confidential); corrected Harrington/Brown/Smee Reb. Pf. at 126.
98. FairPoint's broadband expansion plan calls for use of new ADSL-2 technology which provides an efficient platform for additional services, including IPTV, in the future. Harrington/Brown/Smee Reb. Pf. at 28, 29-30.
99. Under the Merger Agreement, Verizon will nominate six of the nine members of the FairPoint board of directors. Smith Pf. at 19; Exh. Verizon VT SES-1, Section 7.19. Verizon has nominated to the board of directors Bonnie Newman, who has regulatory experience and strong ties to northern New England. Tr. 9-5-07 (Leach) at 24-25.

100. The investment community believes that Verizon conducted its sale of the northern New England properties in an effective manner. Verizon provided an Offering Memorandum to parties that expressed interest. Wheaton Pf. at 13.

101. Verizon did not select FairPoint solely because it would permit qualification for the Reverse Morris Trust ("RMT") treatment. Verizon could have achieved this result by spinning off the business to its shareholders, as it recently did with its directory publishing business. Smith Pf. Reb. at 19-20.

102. An RMT is an appropriate way of acquiring and capitalizing a regulated utility. Although the structure is unavailable to very large potential acquirers of the northern New England business, those entities might be more motivated to reduce expenses or capital investment in order to offset the potentially greater purchase price caused by higher taxes. Wheaton Pf. at 11-12.

103. The RMT has been used in other recent acquisitions of telecommunications business and it will be a significant driving factor in future incumbent local exchange carrier ("ILEC") divestitures. Wheaton Pf. at 12.

CONCLUSION

104. FairPoint is technically competent, financially sound, will act as a fair partner in business transactions with the citizens of Vermont, will create efficiencies that will benefit customers, and will not impair or obstruct competition.

105. The transfer of assets associated with the Vermont Business by Verizon VT, NYNEX Long Distance, BACI and VSSI will promote the general good of the state. 30 V.S.A. § 109.

106. The acquisition by FairPoint of a controlling interest in Telco and Newco will promote the public good. 30 V.S.A. § 107.

107. The acquisition by FairPoint of a controlling interest in Telco and Newco will not result in obstructing or preventing competition. 30 V.S.A. § 311.

108. The ownership and operation by Telco and Newco of public service businesses subject to the Board's jurisdiction will promote the general good of the state and therefore Telco and Newco should be issues Certificates of Public Good ("CPGs"). 30 V.S.A. § 231(a).

109. The termination or abandonment of Verizon VT's Vermont-regulated business is consistent with the public interest. 30 V.S.A. § 231(b).

110. The transfer of the aspects of the Vermont Business conducted by NYNEX Long Distance, BACI and VSSI business is consistent with the public interest. 30 V.S.A. § 231(b).

111. Telco should be designated as an Eligible Telecommunications Carrier ("ETC") under 47 U.S.C. §254(e) and 47 C.F.R. § 54.201(b), because it will offer the services supported by the federal "universal service support" mechanism that has supported Verizon VT's services.

RESPECTFULLY SUBMITTED,

VERIZON NEW ENGLAND INC., NYNEX LONG DISTANCE COMPANY, VERIZON SELECT SERVICES INC. and BELL ATLANTIC COMMUNICATIONS, INC.

By their Attorneys:

/s/ Alexander W. Moore

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Alexander W. Moore
185 Franklin Street, 13th Floor
Boston, MA 02110-1585
(617) 743-2265

Peter H. Zamore
Sheehey Furlong & Behm P.C.
30 Main Street, 6th Floor
Burlington, VT 05402-0066
(802) 864-9891

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